



# **Fairfax County Internal Audit Office**

**Department of Human Resources  
Business Process Audit  
Final Report**

**January 2018**

***"promoting efficient & effective local government"***

# Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the Department of Human Resources (DHR). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, open-ended purchase orders, monthly reconciliations, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included time/attendance system and controls, attendance/absence reporting, employee clearance record processing, credit check requirements for positions of trust, and procedures for completing criminal background investigations for employment in sensitive positions.

We noted the following exceptions where compliance and controls needed to be strengthened:

- Deficiencies were noted in the reconciliation process for purchase orders, non-purchase orders and Marketplace transactions regarding the adequacy of supporting documentation, separation of duties, and departmental procedures.
- There were control weaknesses over revenue collection for individual fitness membership purchases.
- Checks were not restrictively endorsed immediately.
- DHR did not have the Department Operating Procedures Form completed that is required by Financial Policy Statement (FPS) 470, *Processing Monetary Receipts*.
- For one of four procurement cards, the custodian did not maintain a transaction log to track the physical location of the card.
- Two items requiring a technical review were purchased using the procurement card, circumventing the technical review process.
- Controls over tracking gift cards purchased were not adequate.
- Ten transactions made with either a purchase order (PO), procurement card, or FOCUS marketplace were not supported by signed and dated packing slips to evidence accurate receipt.
- Two purchase orders were created and approved after the corresponding order was already placed with the vendor.
- A travel authorization form was not completed before the travel took place.
- Control weaknesses were noted in the process for completing the Employee Clearance Record Checklist.

# Scope and Objectives

This audit was performed as part of our fiscal year 2018 Annual Audit Plan and was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives were to review DHR's compliance with county policies and procedures for purchasing processes, personnel/payroll administration, and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included transactions from procurement cards, FOCUS marketplace, purchase orders, and non-purchase orders that occurred during the period of June 1, 2016, through May 31, 2017. For that period, the department's purchases were \$254,811 for procurement cards, \$31,983 for FOCUS marketplace, \$526,698 for purchase orders that were received, and \$297,327 for non-purchase order payments.

## Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

## Findings, Recommendations, and Management Response

### 1. Monthly Reconciliations

DHR did not have documented evidence that the complete population of transactions were reconciled for purchase orders and non-purchase orders. In addition, for Marketplace transactions, POs, and Non-POs, the Reconciliation Certification Form was not used to document who prepared and reviewed the reconciliation, and when it was done. However, DHR had evidence that the procurement card transactions were reconciled and included the required reconciliation certification forms.

Per *Accounting Technical Bulletin (ATB) 020, Reconciliation of Financial Transactions*, "County management has fiduciary responsibility, as custodians of public funds, to ensure the integrity of financial transactions posted to FOCUS. To ensure the integrity of the county's financial records, county departments are responsible for performing monthly reconciliations on a timely basis at the transaction level. These reconciliations are to be carried out in accordance with a department reconciliation plan that has been approved by DOF."

Additionally, ATB 020 requires departments to complete a Reconciliation Certification Form. The form should be signed and dated by the director or designee indicating the reconciliation that was completed for a specific period. This is to verify that the department's transactions have been reconciled timely and authorizer/approver verified.

Failure to perform and document a monthly reconciliation of all expenditure documentation to data in FOCUS increases the risk that erroneous or inappropriate charges go undetected.

**Recommendation:** On a monthly basis, DHR should develop documentation to substantiate that the complete population of PO and Non-PO transactions has been reconciled from FOCUS records to the source documents. Additionally, for the Marketplace, PO, and Non-PO reconciliations, the preparer and reviewer of the reconciliations should sign and date the Reconciliation Certification Form to evidence a timely preparation and review process. The forms should be maintained on file by the agency.

**Management Response:** DHR will include formal documentation of PO and non-PO transactions to include the reconciliation with FOCUS KSB1 Report and completed Reconciliation Certification Forms to be filed with signatures within 30 days of previous month end. Management anticipates completing these actions by December 2017.

## 2. Controls Over Fitness Memberships

There were not adequate controls over revenue collection of fitness membership fees. All fitness center employees who collect membership fees had the ability to waive the fee in the transaction system (ShapeNet) without proper approvals or audit trails. Supervisory approval was not required by the system when fees were waived and periodic review of waived transactions was not being performed.

Not having adequate internal controls in this area increases the risk for fraud or error to occur.

**Recommendation:** We recommend DHR to capture all waiver transactions on a system audit report and remove any waiver functionality that circumvents the audit report. In addition, DHR should document and implement a waiver procedure that includes at least the following:

- a. A waiver form should be developed to document written approval from the Fitness Director. The cashier should only make an adjustment or modification for a free membership in ShapeNet after the director has signed the form. Completed forms should be retained on file for the Fitness Director's review.

- b. On a regular basis, the Fitness Director should reconcile the report listing all the modifications from ShapeNet to the waiver forms. The report should be signed and dated to document when the reconciliation was performed and who performed it. Finally, the reconciliation should be retained on file.

**Management Response:** DHR modified ShapeNet to disable waiver related functionality. In addition, the Employee Fitness and Wellness Center staff implemented a new reporting policy. The “Member Check-In Summary” report and the “Audit Trail” report are generated from Shape.Net on a weekly basis and verified to ensure no waivers are processed. The reports are reviewed by the Fitness Center Director and shared electronically with the LiveWell Coordinator and Benefit Financial specialist. Copies of the reports are saved to the S Drive. Any oddities are noted by the Fitness Center staff and explanations are also saved to the S Drive. A log will also be created to track the issuance and usage of complimentary fitness training sessions. The log will record the date a training session is awarded and the date it is redeemed. The Fitness Center Manager will be responsible for this log with a monthly review by the LIVE Well Coordinator. Management anticipates completing these actions by December 2017.

### 3. Endorsing Checks

Per discussions with DHR, checks were not restrictively endorsed immediately. DHR receives checks for fitness membership and Consolidated Omnibus Budget Reconciliation Act (COBRA) insurance payments.

Per FPS 470, *Processing Monetary Receipts*, “All checks are to be endorsed “For Deposit Only” along with the department/program name. This can either be by hand or with an approved endorsement stamp.”

Failure to restrictively endorse checks immediately increases the potential for check fraud.

**Recommendation:** We recommend DHR ensure checks are restrictively endorsed immediately after the mail is opened or received from the customer.

**Management Response:** The Fitness Center received a new “for deposit only” stamp in early January. The Fitness Center staff were directed to stamp any checks before depositing them. Management anticipates completing these actions by January 2018.

### 4. Processing Monetary Receipts

DHR did not have the Department Operating Procedures Form completed that is required by FPS 470, *Processing Monetary Receipts*.

FPS 470, states, “At a minimum, all departments are required to complete the Department Operating Procedures Form (Attachment 1).” In addition per the statement, in order to document adherence to FPS 470, the form must be completed and retained on file for the Department of Finance (DOF) and audit review. Any

exceptions to the requirements listed on the form must be approved by the DOF Director, using the Waiver Request Form.

Not having the Department Operating Procedures Form completed increases the risk for fraud or error to occur, and inadequate safeguarding and handling of monetary receipts.

**Recommendation:** DHR should complete the Department Operating Procedures Form and identify if there are any exceptions to the requirements in the form. If there are exceptions, DHR should obtain DOF approval for the exceptions, and retain the approval on file.

**Management Response:** DHR will complete the Department Operating Procedures Form and retain the approval on file. As of February 5, 2018, cash and American Express Payments will no longer be collected at the Employee Fitness and Wellness Center. Members were notified of the change in December 2017 and no exceptions will be made after February 5, 2018. This change was made to eliminate the transfer of cash within the fitness center and to streamline payments and reconciliation processes. Management anticipates completing these actions by February 2018.

## 5. Procurement Card Transaction Log

For one of four procurement cards, the assigned custodian did not have a transaction log for tracking the physical card. We noted one purchaser who obtained the card from the custodian temporarily held the card and created an electronic log to track their purchases; however, the custodian did not maintain a log to track who held the physical card.

Procurement Technical Bulletin (PTB) 12-1009, *Use of the County Procurement Card*, indicates that “the p-card custodian is the employee who is responsible for the physical security of the p-card. The p-card custodian also monitors p-card activity through the use of a p-card transaction log.”

If possession of the p-card is not accurately tracked, the risk of not identifying fraudulent transactions in a timely manner is increased. Additionally, accountability is reduced in the event a card is lost or inappropriate charges are placed on the card.

**Recommendation:** We recommend DHR develop and implement a p-card transaction log template that requires each individual who uses the departmental p-card to physically sign the log and indicate the date they took possession of the card and when the card was returned.

**Management Response:** DHR to ensure all p-cards have a log template that requires the employee to physically sign the log and indicate the date they took possession of the card and also the date when the card was returned. Management anticipates completing these actions by December 2017.

## 6. Technical Review

Two ceiling mount kits for Epson projectors were purchased using the procurement card without going through the proper technical review.

Procedural Memorandum (PM) 12-04, *Technical Review of Purchase Requisitions*, states “Unless formally exempted by the responsible technical review agency, no agency may purchase an item or service requiring technical review without first completing the review process. For this reason items and service requiring technical review may not be purchased using a procurement card.”

Purchasing technical items on the p-card increases the risk of overpayment for goods, purchasing items that are incompatible with the county’s systems or not compliant with the county’s standards, and purchasing from a vendor that does not offer technical support.

**Recommendation:** We recommend DHR create purchase orders in FOCUS to procure equipment requiring technical review. If exemptions from technical review are granted by a technical review agency then documentation of the exemption should be maintained on file.

**Management Response:** Unfortunately, staff did not realize the mounting kits are considered technical equipment and this was not an intentional circumvention of the technical review process. DHR does create purchase orders in FOCUS to procure equipment requiring technical review, however more review will be done with the technical review matrix when issuing the p-card for purchases. Staff will be notified that all questions should be directed to the Management Analyst. Management anticipates completing these actions by December 2017.

## 7. Gift Card Controls

Our review of procurement card transactions noted control weaknesses in the tracking of gift cards purchased for raffles related to Live Well events. We noted that there was no reconciliation between the number of cards purchased and distributed. In addition, there was no gift card log requiring signature from the recipient. However, we noted adequate controls were in place for safeguarding the cards as they were kept in a locked room with limited access.

Failure to maintain adequate accountability over the issuance of gift cards increases the risk of misuse of those cards and potential negative publicity. In addition, failure to maintain such documentation does not provide a sufficient audit trail and weakens internal controls over their use.

**Recommendation:** DHR should develop and implement formal written procedures that require performing a reconciliation and maintaining a log for tracking gift cards. The gift cards purchased should be reconciled to those distributed. In addition, the gift card log should include: name of recipient, signature/initial of recipient, date of issuance, value of cards issued, and a brief description as to why the card was issued.

**Management Response:** As recommended, DHR will develop and implement formal written procedures as well as a log for tracking gift cards that will include recipient name and signature. Management anticipates completing these actions by January 2018.

## 8. Receipt of Ordered Goods

In our review of purchase orders, FOCUS marketplace transactions, and online procurement card transactions, we noted ten sampled purchases were not supported by a signed and dated packing slip or other evidence indicating who confirmed the receipt of ordered goods and when it was confirmed.

Per PM 12-09, *Delegated Purchasing Procedures for Orders Under \$10,000*, one must “verify that items have been received as ordered. Sign and date the vendor packing slip to indicate proper receipt and to establish acceptance date.” Additionally, PM 12-16, *On-line Procurement of Office Supplies*, states “packing lists should be signed and dated, acknowledging accurate receipt, [and] packing lists should be retained with the order documentation.”

Not properly documenting receipt of ordered goods prevents the assurance of an adequate separation of duties and increases the risk of paying for items that were not received.

**Recommendation:** DHR should ensure that the receipt of all ordered goods and services is adequately documented. If a packing slip is not included with the shipment, receipt of the ordered goods should be documented on the invoice. All receiving documentation should be maintained on file with the supporting documentation for the transaction, and received by an individual other than the purchaser/approver.

**Management Response:** DHR will refer appropriate staff to online FOCUS resources to review county procedures on the receipt of goods and the need to maintain supporting documentation on file. Management anticipates completing these actions by January 2018.

## 9. Purchase Order Created After Receipt of Invoice

Of the 10 purchase orders tested, we noted two purchase orders were created and approved after the corresponding order was already placed with the vendor. For an order of \$15,017 for Laserfiche Annual Support, the shopping cart was created on 8/31/16 and approved on 9/1/16; however, the invoice was dated 8/4/16. Also, for an order of \$4,749.60 for catering, the shopping cart was created and approved on 2/15/17, but the invoices were dated 2/3/17 and 2/10/17.

Agencies are required to create and approve a purchase order in FOCUS prior to placing an order with a vendor. Failure to do so circumvents the approval process, promises payment to a vendor for funds that have not yet been encumbered for that purpose and prevents an adequate separation of duties.

**Recommendation:** We recommend DHR submit a procurement request through FOCUS and have it approved prior to placing an order with a vendor.

**Management Response:** DHR will brief staff that perform procurement functions that requests need to be processed and approved in FOCUS before placing the order with a vendor. Periodic reviews will be made by management. Management anticipates completing these actions by December 2017.

## 10. Travel Authorization

Our audit tested one non-purchase order payment for travel reimbursement that was verbally pre-approved; however, the Travel Authorization Form was completed and approved approximately two months after the travel return date.

PM 06-03, *Fairfax County Travel Policies and Procedures*, requires that a Travel Expense Voucher be submitted to the Department of Finance (DOF), Accounts Payable, within 10 working days after the travel is completed. Additionally, guidance provided in the Travel Tips and Reminders document on the Department of Finance website states: "Before you purchase any tickets or pay for registration you **MUST** complete a Travel Authorization Form and have department approval. Items purchased without prior approval may not be reimbursed."

Failure to complete a travel authorization form prior to incurring expenses for non-local or overnight travel increases the risk of inappropriate or unauthorized travel expenses and incurring expenses that may not be reimbursed.

**Recommendation:** DHR should adhere to the requirements of PM 06-03 and ensure a Travel Authorization Form is completed and approved before any non-local or overnight travel arrangements are made.

**Management Response:** DHR will instruct staff on the requirements of PM 06-03 including the completion and approval of Travel Authorization Form prior to any arrangements being made. Management anticipates completing these actions by January 2018.

## 11. Employee Clearance Record Checklist

Our audit noted several control weaknesses in the process for completing the Employee Clearance Record Checklist. Of the eight employees tested, one Employee Clearance Record Checklist was not completed, and one checklist was only partially completed. Additionally, the responsibility for completing the checklist was not included in the job description of the staff who is/are responsible for completing this function.

Per PPAPP Memorandum No. 33, *Employee Clearance Record*, "Departments are required to complete an Employee Clearance Record Checklist with each employee leaving County service for any reason." Memorandum No. 33 further states: "Responsibility for completing Employee Clearance Record Checklists must be included in the job description(s) for staff assigned to this function."

Failure to maintain adequate controls over the process for completing Employee Clearance Record Checklists increases the risk of a dispute between the county and prior employees, should an issue arise at a later date.

**Recommendation:** DHR should fully complete and retain an Employee Clearance Record checklist for employees leaving the County service for any reason. Additionally, a copy of the signed checklist should be provided to the employee upon departure from the County.

**Management Response:** DHR will consolidate this function to only one staff. Periodic review for completed checklists will be made by management staff. All DHR position descriptions will be updated to reflect the position #'s of both the primary and secondary employees responsible for this action. Management anticipates completing these actions by December 2017.